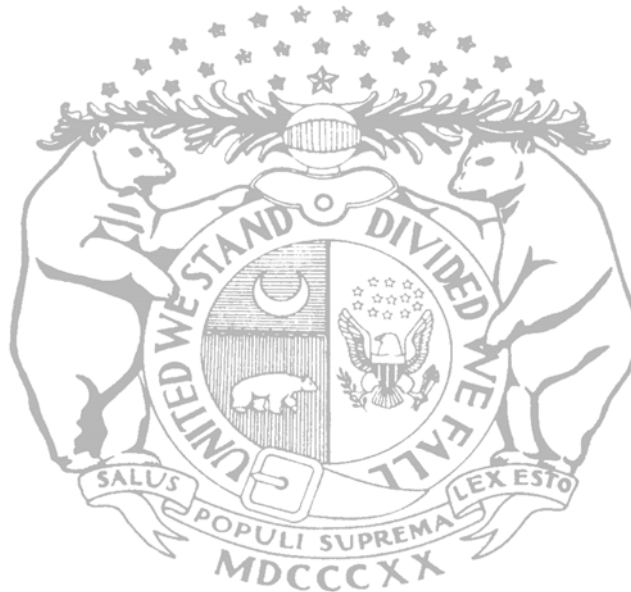


REPORT OF
FINANCIAL EXAMINATION

**THE BAR PLAN SURETY
AND FIDELITY COMPANY**

AS OF
December 31, 2002



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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July 26, 2004
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Commonwealth of Virginia
Chairperson, Financial Condition (E) Committee, NAIC

Honorable Sally McCarty, Commissioner
Indiana Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

THE BAR PLAN SURETY AND FIDELITY COMPANY

also referred to as the "Company." The Company's administrative office is at 1717 Hidden Creek Court, St. Louis, Missouri 63131, telephone number (314) 965-333. This examination began on February 2, 2004, and concluded July 26, 2004.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of The Bar Plan Surety and Fidelity Company was as of December 31, 1999, and was conducted by examiners from the state of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2000, to December 31, 2002, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. Reserves and related actuarial items were reviewed by the firm of Taylor-Walker & Associates, Inc., Consulting Actuaries, pursuant to a contract with the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring after December 31, 2002.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Company's independent auditors for 2002 were made available to the examiners. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments – Previous Examination

The previous examination report did not include any general comments and/or recommendations.

HISTORY

General

The Company incorporated in Missouri on August 14, 1998 and received a Certificate of Authority from the Missouri Department of Insurance on February 5, 1999.

Capital Stock

The Company is authorized to issue 1,500,000 shares of common stock with a par value of \$1.00 per share.

In 1998, the Company issued 1,500,000 shares to TBP Holding Company, Inc. for \$3,000,000. The Company also recorded as additional paid in capital the \$67,549 net income earned in 1998 (the Company did not have to file an annual statement in 1998).

In 2000, TBP Holding Company, Inc. contributed an additional \$250,000 to the Company as paid in and contributed surplus.

As of December 31, 2002, common capital stock was \$1,500,000 and gross paid in and contributed surplus was \$1,817,549.

Dividends

The Company has not declared or paid any dividends to sole stockholder.

Management

The Board of Directors consists of nine members duly elected at an annual meeting of the stockholders as authorized by the Company's Articles of Incorporation. The directors duly elected and serving as of December 31, 2002, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Michael P. Gunn, Chair St. Louis, MO	Attorney at Law
John F. Bild St. Louis, MO	Attorney at Law
Jon W. DeMoss Chicago, IL	ISBA Mutual Insurance Company, President and CEO
Phillip D. Fraim Oklahoma City, OK	Oklahoma Attorneys Mutual Insurance Company, President
Karen R. McCarthy St. Louis, MO	The Bar Plan Group

<u>Name</u>	<u>Principal Occupation</u>
Walter D. McQuie, Jr. Montgomery City, MO	Attorney at Law
John R. Sims Neosho, MO	Sims, Johnson & Wood Law Office
Richard G. Steele Cape Girardeau, MO	Bradshaw, Steele, Cochrane & Berens
Robbianna R. Taylor Cartersville, GA	Attorneys' Title Guaranty Fund, Inc.

Committees of the Board of Directors as of December 31, 2002, were as follows:

<u>Executive</u>	<u>Finance & Investment</u>	<u>Board Succession</u>
Michael P. Gunn *	John F. Bild *	Karen R. McCarthy *
Karen R. McCarthy	Jon W. DeMoss	Phillip D. Fraim
John R. Sims	Robbianna R. Taylor	John F. Bild
John F. Bild		Walter D. McQuie, Jr.

<u>Audit</u>	<u>Claims</u>	<u>Underwriting</u>
Phillip D. Fraim *	Walter D. McQuie, Jr. *	Michael P. Gunn *
Jon W. DeMoss	Michael P. Gunn	Karen R. McCarthy
Robbianna R. Taylor	John R. Sims	John R. Sims

* Committee Chair

The officers elected and serving as of December 31, 2002, were as follows:

<u>Name</u>	<u>Office</u>
Karen R. McCarthy	President
John R. Sims	Secretary
John F. Bild	Treasurer
Gregory H. Klaus	Vice President

Conflict of Interest

Conflict of Interest Disclosure Statements are executed annually by all directors and officers of the Company. A review of the statements for the years under examination did not disclose any material conflicts.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the period being examined.

The minutes of the meetings of the Stockholder and Board of Directors were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions. It was noted that the examination report as of December 31, 1999, was reviewed and accepted by the Company's Board of Directors.

Acquisitions, Mergers, and Major Corporate Events

None.

Surplus Debentures

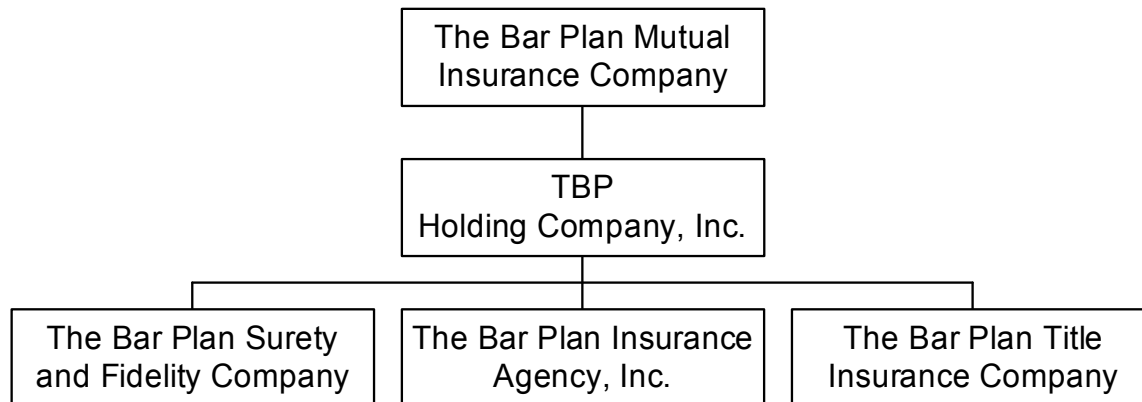
None.

AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

The Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The ultimate controlling person is The Bar Plan Mutual Insurance Company, a Missouri domiciled property and casualty insurer.

Organizational Chart

The following organizational chart depicts the Insurance Holding Company System as of December 31, 2002. All entities are organized in Missouri and all subsidiaries are wholly owned.



On December 31, 2003, TBP Holding Company, Inc. sold all the outstanding common stock of The Bar Plan Title Insurance Company to Reliant Holding Company of Prairie Village, Kansas. At that time, The Bar Plan Title Insurance Company changed its name to Guarantee Title Insurance Company.

Intercompany Transactions

Administrative and Management Services Agreement

Under an Administrative Services Agreement dated December 31, 1998, The Bar Plan Mutual Insurance Company agrees to provide sufficient staff and other resources to perform the general administrative tasks of the Company for compensation of \$3,500 per month (\$5,000 per month prior to April 2001). The Company paid \$60,000 in 2000, \$46,500 in 2001 and \$42,000 in 2002 for services received under the agreement.

Claims Services Agreement

Under a Claims Services Agreement dated December 31, 1998, The Bar Plan Mutual Insurance Company agrees to provide sufficient staff and other resources to perform claims management services for the Company for compensation at the rate of \$75 per hour. The Company paid \$4,883 in 2001 and \$9,293 in 2002 under the agreement.

Tax Allocation Agreement

The Bar Plan Mutual Insurance Company and its subsidiaries entered into a Tax Allocation Agreement under which the parties agree to file consolidated Federal Income Tax Returns for 1995 and each subsequent tax period for which a consolidated return is required or permitted. The consolidated tax liability for each year shall be apportioned among the parties in accordance with the ratio, which that portion of the consolidated taxable income attributable to each party having taxable income bears to the consolidated taxable income.

FIDELITY BOND AND OTHER INSURANCE

The Company is insured under an office package policy that includes crime coverage (Form A – Employee Dishonesty) with limits of \$500,000 and a deductible of \$250 per loss. This coverage complies with the suggested minimum amount of fidelity insurance according to the NAIC guidelines.

The Company is also insured under the following coverages:

- Workers' Compensation and Employers Liability
- Commercial General Liability including Umbrella
- Building including Accounts Receivable, Valuable Papers, Computer Equipment, Data & Media, Loss of Income & Extra Expense, Duplicate and Backup Data/Media, Fine Arts and Transit
- Commercial Automobile
- Employment Practices Liability
- Directors and Officers Liability
- Insurance Company Professional Liability

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provides typical employee benefits including a group health plan, a group dental plan, group life insurance, short and long term disability and a profit sharing and 401(k) savings plan. The financial statements include provision for the Company's obligations under such plans.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 379.098 RSMo (Securities deposit).

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	\$ 1,485,000	\$ 1,594,519	\$ 1,562,696

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2002, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Oklahoma	US Treasury Note	\$ 325,000	\$ 342,368	\$ 325,164

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance Other Than Life) to write surety and fidelity bonds. The Company is also licensed in Illinois, Kansas and Oklahoma.

The Company writes non-contract/court bonds including Notary, Guardian/Conservator, Administrators/Executors, Small Estates, Appeal/Supersedeas, Lost Instrument, Replevin, Injunction/TRO and Creditor's Refusal bonds.

Business is produced directly by the Company and through attorneys and independent agents. All bonds are underwritten and approved by the Company before issuance.

In Missouri, attorneys appointed by the Company as “attorneys in fact” may issue bonds underwritten and approved by the Company. The Company has appointed approximately 115 attorneys as “attorneys in fact” in Missouri.

Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. The Department has not performed a market conduct examination of the Company’s operations.

REINSURANCE

General

Premiums written during the period under examination were as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Direct	\$ 227,429	\$ 305,757	\$ 436,867
Reinsurance Assumed	-	-	-
Reinsurance Ceded	<u>120,506</u>	<u>164,058</u>	<u>234,462</u>
Net Premiums	<u>\$ 106,923</u>	<u>\$ 141,699</u>	<u>\$ 202,405</u>

Assumed

The Company did not assume any reinsurance during the period under examination.

Ceded

Under a non-contract surety bond pro rata reinsurance agreement effective January 1, 1999, the Company cedes fifty-percent of the indemnity written with a maximum retention of \$250,000 per bond. The Company warrants that it will not write bonds with a penal sum in excess of \$2,000,000. Bonds with a penal sum in excess of \$2,000,000 may be submitted facultatively.

ACCOUNTS AND RECORDS

The Company's financial statements for 2002 were audited by PricewaterhouseCoopers LLP, Certified Public Accountants. The Company requested and the Missouri Department of Insurance granted the Company an exemption from filing audited financial statements for 2000 and 2001 under the small company guidelines outlined in the annual statement instructions.

The Company was also granted an exemption from filing actuarial opinions for the years under examination.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2002, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 2,916,447	\$ -	\$ 2,916,447
Cash and short-term investments	251,257	-	251,257
Premiums and agents' balances in course of collection	114,652	41,028	73,624
Reinsurance recoverable on loss and loss adjustment expense payments	(4,886)	-	(4,886)
Federal income tax recoverable	31,261	-	31,261
Electronic data processing equipment and software	86,700	86,700	-
Interest, dividends and real estate income due and accrued	22,679	-	22,679
Receivable from parent, subsidiaries and affiliates	323	-	323
Other assets nonadmitted	<u>13,463</u>	<u>13,463</u>	<u>-</u>
Totals	<u>\$ 3,431,896</u>	<u>\$ 141,191</u>	<u>\$ 3,290,705</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses (Note 1)	\$ 299,120
Loss adjustment expenses (Note 1)	60,810
Commissions payable, contingent commissions and similar charges	(27)
Other expenses	19,976
Taxes, licenses and fees	4,638
Federal and foreign income taxes (including \$840 net deferred tax liability)	840
Borrowed money	14,062
Unearned premiums	89,319
Advance premiums	7,162
Ceded reinsurance premiums payable	14,502
Amounts withheld or retained by Company for account of others	463
Other liabilities	<u>2,472</u>
Total liabilities	513,337
Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	1,817,549
Unassigned funds (Note 1)	<u>(540,181)</u>
Surplus as regards policyholders	2,777,368
Totals	<u><u>\$ 3,290,705</u></u>

STATEMENT OF INCOME

Premiums earned	\$ 199,060
Loss adjustment expenses	75,424
Loss expenses incurred	21,527
Other underwriting expenses incurred	<u>329,012</u>
Total underwriting deductions	425,963
Net underwriting gain (loss)	(226,903)
Net investment income earned	<u>160,203</u>
Net income before federal income taxes	(66,700)
Federal and foreign income taxes incurred	<u>(21,802)</u>
Net income	<u><u>\$ (44,898)</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, beginning of year	\$ 3,094,142
Net income	(44,898)
Change in net deferred income tax	601
Change in nonadmitted assets	19,122
Cumulative effect of changes in account principles	(7,412)
Extraordinary amounts of taxes for prior years	2,289
Cumulative effect of examination changes (Note 1)	<u>(286,476)</u>
Change in surplus as regards policyholders for the year	(316,774)
Surplus as regards policyholders, end of year	<u>\$ 2,777,368</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 <u>Losses</u>	\$299,120
<u>Loss adjustment expenses</u>	\$60,810

Losses were increased by \$238,076 and loss adjustment expenses were increased by \$48,400 as recommended by the Consulting Actuaries, Taylor-Walker & Associates.

EXAMINATION CHANGES

Total surplus per annual statement:

Common capital stock	\$ 1,500,000	
Gross paid in and contributed surplus	1,817,549	
Unassigned funds	<u>(253,705)</u>	
		\$ 3,063,844

	<u>Increase In Surplus</u>	<u>Decrease In Surplus</u>	
Assets:			
None	\$ -	\$ -	
Liabilities:			
Losses (Note 1)	\$ -	\$ 238,076	
Loss adjustment expenses (Note 1)	<u>-</u>	<u>48,400</u>	
Total	\$ -	\$ 286,476	
Net Change	\$ -	\$ 286,476	<u>(286,476)</u>
Total surplus per examination report:			
Common capital stock		\$ 1,500,000	
Gross paid in and contributed surplus		1,817,549	
Unassigned funds		<u>(540,181)</u>	
Surplus as regards policyholders			<u><u>\$ 2,777,368</u></u>

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of The Bar Plan Surety and Fidelity Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Art Palmer, examiner for the Missouri Department of Insurance, participated in this examination. R. Glenn Taylor, ACAS, MAAA, associated with Taylor-Walker & Associates, Inc., reviewed the reserves and related actuarial items.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Walter A. Riesenberg, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Walter A. Riesenberg, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this ____ day of _____.
My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe
Audit Manager, St. Louis
Missouri Department of Insurance

ADDENDUM

Statement of Actuarial Opinion

Actuarial Examination